

Message Text

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ACTION EUR-25

INFO OCT-01 AF-10 ADP-00 H-02 NSC-10 CIAE-00 DODE-00

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R 021245 Z MAY 73

FM AMEMBASSY LISBON

TO SECSTATE WASHDC 7926

INFO AMCONSUL LUANDA

AMCONSUL LOURENCO MARQUES

AMCONSUL OPORTO

AMCONSUL PONTA DELGADA

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TAGS: PGOV, PINT

SUBJ: GOVERNMENT'S POLITICAL MOVEMENT TO HOLD NATIONAL
CONGRESS THIS WEEK

1. SUMMARY: GOP'S NATIONAL POLITICAL MOVEMENT, GEARING
UP FOR OCTOBER ELECTIONS, WILL HOLD ITS NATIONAL CONGRESS
MAY 3-6. PROGRAM AND PERSONALITIES ARE UNSTARTLING.
ABSENCE OF GOVERNMENT'S LIBERAL AND CONSERVATIVE CRITICS
IN NATIONAL ASSEMBLY AND ELSEWHERE, ALONG WITH BLAND
PROGRAM, INDICATE LITTLE LIKELIHOOD OF CONTROVERSY.
END SUMMARY.

2. PORTUGAL'S OFFICIAL POLITICAL MOVEMENT, ACCAO
NACIONAL POPULAR (ANP), WILL HOLD NATIONAL CONGRESS
MAY 3-6 AT TOMAR. CONGRESS EXPECTED TO BRING TOGETHER
1500 DELEGATES FROM METROPOLE AND OVERSEAS PROVINCES.
MOST DELEGATES WILL BE REPRESENTATIVES OF LOCAL ANP BODIES.
CHAIRMAN OF CONGRESS IS PRIME MINISTER MARCELLO
CAETANO, WHO EXPECTED TO SPEAK AT OPENING AND CLOSING
PLENARIES MAY 3 AND 6 SESSIONS.
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3. WORK OF CONGRESS DISTRIBUTED AMONG 15 WORKSHOPS, TO BE PRESIDED OVER BY WELL KNOWN DEPUTIES, PROFESSORS, OR OTHERS WITH EXPERIENCE IN FIELDS TO BE DISCUSSED. PROMINENT GOVERNMENT OFFICIALS, INCLUDING ALL MINISTERS AND SEVERAL SECRETARIES AND SUBSECRETARIES OF STATE, WILL ADDRESS WORKSHOPS IN THEIR FIELDS.

4. OBJECTIVES OF CONGRESS ARE TO DEFINE AND PUBLICIZE GOVNT THIS YEAR, THOUGH THIS IS NOT YET GENERALLY ACKNOWLEDGED. PUBLIC DISCUSSION CONTINUES TO REVOLVE AROUND FIGURE SIMILAR TO LAST TWO YEARS (12-13 PERCENT), BUT THIS IS PARTLY HEAD- IN- THE SAND, AND PARTLY HOPE THAT OUTCOME CAN BE INFLUENCED BY SYMPATHETIC MAGIC. SHORT OF SOME DRAMATIC ACTION PROGRAM AGAINST INFLATION (WHICH DOES NOT NOW SEEM IN THE CARDS) INFLATIONARY FORCES ARE AT WORK WHICH CAN HARDLY BE STEMMED BEFORE END OF YEAR.

3. THIS WILL HAVE CONSEQUENCES BUT THEY SHOULD NOT BE EXAGGERATED. WHILE WE BELIEVE INFLATION THIS YEAR WILL SHOCK ISRAELI PUBLIC AND GOVT, ROOF IS NOT ABOUT TO FALL IN. ISRAELI ECONOMY IS THROUGHLY ACCUSTOMED TO INFLATION AND ADAPTED TO COUNTERING ITS EFFECTS. PHONMENON OF LINKAGE TO COST- OF- LIVING INDEX (OR TO EXCHANGE RATE WITH DOLLAR) IS PERVASIVE AND MITIGATES FOR INDIV- IDUALS MANY OF INJUSTICES OF INFLATION. AT LEAST 85 PERCENT OF INTERNAL DEBT IS LINED; MAY WAGE AGREEMENTS PROVIDE FOR LINKED BENEFITS; COST- OF- LIVING ALLOWANCES ARE UNIVERSAL; AND EVEN THOUGH FORMALLY UNLINKED, WELFARE BENEFITS AND EXPORT SUBSIDIES ARE ADJUSTED FREQUENTLY TO OFFSET PRICE INCREASES. NATIONAL INSURANCE PENSIONS ARE LINKED TO AVERAGE WAGE. MOREOVER, THERE IS WIDESPAREAD ACCEPTANCE OF THEORY THAT SOME INFLATION IS UNAVOIDABLE PRICE A DEVELOPING COUNTRY MUST PAY FOR RAPID GROWTH. ISRAEL HAS EXPERIENCED TWO AND ONE- HALF YEARS OF INFLATION AT RATE OF ONE PERCENT PER MONTH AND THRIVED ON IT. QUITE LITERALLY, ISRAELIS HAVE NEVER HAD IT SO GOOD. PROPHECIES OF DOOM ARE AT DISCOUNT AND PROPHETS DISCRED- ITED, BECAUSE THEY HAVE NOT SUSTAINED ONUS OF PROOF THAT INFLATION MUST BE BAD FOR ISRAEL.

4. MIDYEAR COST- MF - LIVING ADJUSTMENT FOR ALL WORKERS IS NOW FOREGONE CONCLUSION AND DISCUSSIONS CENTERS ON HOW LARGE IT WILL BE. HISTADRUT HAD TAKEN POSITION THAT IT WOULD FOREGO MIDYEAR COL ADJUSTMENT IF CONSUMER PRICE INCREASE DID NOT EXCEED 4-5 PERCENT IN FIRST SIX MONTHS; IT BEING CERTAIN THAT PRICES WOULD RISE THAT MUCH. IN GETTING VIRTUAL UNANIMITY (INCLUDING ALIGN- MENT FACTION) IN HISTADRUT CENTRAL COMMITTEE FOR ABOVE POSITION, HISTADRUT SECGEN BEN- AHARON CLEARLY OUTMANEUVERED MINFIN SAPIR, WHO HAD HOPED TO AVOID MIDYEAR ADJUSTMENT AL- CONFIDENTIAL

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TOGETHER. MINIMALISTS ARE NOW REDUCED TO HOPING THAT HISTADRUT WILL AGREE TO DEDUCT THIS 4-5 PERCENT FROM PRICE INCREASE THROUGH JUNE (WHICH WILL PROBABLY BE ABOUT 9 PERCENT), AND SETTLE FOR, SAY, 5 PERCENT. HISTADRUT HAS NOT YET MADE UP ITS MIND WHAT IT WANTS. THERE WILL ALSO BE COL ADJUSTMENT NEXT JANUARY, AS USUAL. BUDGET ENACTED THREE WEEKS AGO FOR FISCAL YEAR BEGINNING APRIL 1 DOES NOT HAVE FUNDS IN IT TO COVER TWO COL ADJUSTMENTS FOR CIVIL SERVANTS IN ONE YEAR. MOREOVER, BUDGET IS ONLY 12 PERCENT LARGER THAN LAST YEAR'S BUDGET, WHICH IN VIEW OF INFLATION WOULD SIGNIFY REDUCTION IN REAL EXPENDITURE -- AN IMPROBABLE OUTCOME. IT MUST BE ASSUMED, THEREFORE, THAT SUPPLEMENTARY BUDGET IS ODDS- ON PROSPECT LATER THIS YEAR. SINCE GOVT SPENDS THROUGH BUDGET ABOUT 60 PERCENT OF GROSS NATIONAL PRODUCT OF ISRAEL, THIS IS BOUND TO HAVE SIGNIFICANT ECONOMIC IMPACT.

5. IN ADDITION, BIENNIAL CYCLE OF NEGOTIATION OF WAGE AGREEMENTS BEGINS AGAIN NEXT JANUARY. LAST CYCLE, SUPPOSED TO BE CONCLUDED IN EARLY 1972, ACTUALLY DRAGGED ON INTO 1973, AS VARIOUS UNIONS DELAYED SIGNING IN (JUSTIFIED) BELIEF THAT PROTRACTING NEGOTIATIONS WOULD RESULT IN BETTER TERMS. SAME TACTIC CAN BE EXPECTED NEXT YEAR, WITH DIFFERENCE THAT BACKGROUND OF HIGH INFLATION IN 1973 LIKELY TO HAVE EXACERBATING EFFECT. EFFECT MAY BE TO POSITION DEMAND FACTORS TO AGAIN TAKE OVER ROLE OF PRINCIPAL STIMULUS TO INFLATION AROUND BEGINNING OF 1974.

6. THERE IS WIDESPREAD EXPECTATION THAT GOVT WILL CLAMP DOWN ON RISE IN DISPOSABLE INCOME FOLLOWING ELECTIONS SCHEDULED FOR LATER OCTOBER 1973. CLAMP- DOWN ON DISPOSABLE INCOMES WAS ALSO CARRIED OUT BY GOI IN 1970, AFTER LAST GENERAL ELECTIONS IN NOVEMBER 1969. BUT IN THAT CASE GOI HAD SEVERAL THINGS GOING FOR IT WHICH IT LACKS THIS TIME: (A) INFLATION HAD BEEN HELD TO LESS THAN 3 PERCENT PER YEAR IN EACH OF 1967, 1968 AND 1969; (B) REVELATION OF MASSIVE SOVIET MILITARY INTERVENTION IN EGYPT IN EARLY 1970 SHOCKED ISRAELIS OUT OF THEIR COMPLACENCY AND MADE THEM WILLING TO SACRIFICE; (C) WAR OF ATTRITION WAS STILL GOING ON AND OUTCOME WAS UNCERTAIN; (D) EXTENT OF USG'S WILLINGNESS TO BANKROLL GUNS- AND- BUTTER FOR ISRAEL WAS UNKNOWN; (E) PSYCHOLOGICAL EXPECTATIONS OF PROSPERITY RIGHT AROUND CORNER WERE NOT RUNNING NEARLY AS STRONG.

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